



OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

External Quality Control Review
of the Department of Commerce's
Office of Inspector General Audit Organization

April 2007

Public Release



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
INSPECTOR GENERAL

APR 23 2007

- The Honorable Johnnie E. Frazier
Inspector General
Department of Commerce
1401 Constitution Avenue, N.W.
Washington, D.C. 20230

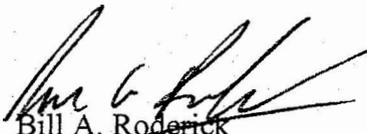
Dear Mr. Frazier:

The enclosed final report presents the results of our External Quality-Control Review of the audit function of the Department of Commerce Office of Inspector General. This review was conducted in accordance with the standards and guidelines established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

Management concurred with our findings and recommendations and has taken or is taking corrective actions to address the observations in this report. Management's response to the draft report is included as an exhibit to this report with excerpts incorporated into the relevant sections of the report.

We appreciated the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact me or have your staff contact, Howard Cantor, Assistant Inspector General for Planning, Analysis and Results at (202)566-2649.

Sincerely,


Bill A. Roderick
Acting Inspector General

Enclosure

Final Report
External Quality Control Review of the Department of Commerce's
Office of Inspector General Audit Organization

We have reviewed the system of quality control for the audit function of the Department of Commerce Office of Inspector General (DOC OIG) in effect for the period ended March 31, 2006. A system of quality control encompasses the DOC OIG's organizational structure, and the policies adopted and procedures established to provide it with reasonable assurance of conforming with generally accepted *Government Auditing Standards* (GAGAS). The elements of quality control are described in GAGAS, promulgated by the Comptroller General of the United States. The design of the system, and compliance with it in all material respects, are the responsibility of DOC OIG. Our objective was to determine whether the internal quality control system was adequately designed and complied with to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. Our responsibility is to express an opinion on the design of the system and DOC OIG's compliance with the system.

Our review was conducted in accordance with the guidelines established by the President's Council on Integrity (PCIE) and Efficiency and the Executive Council on Integrity and Efficiency. In performing our review, we obtained an understanding of the system of quality control for the DOC OIG. In addition, we tested compliance with the DOC OIG's quality control policies and procedures to the extent we considered appropriate. These tests included the application of the DOC OIG's policies and procedures on selected audits. Because our review was based on selective tests, it would not necessarily disclose all weaknesses or instances of noncompliance with the system of quality control. Nevertheless, we believe that the procedures we performed provide a reasonable basis for our opinion.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the audit function of the Department of Commerce, Office of Inspector General in effect for the period ended March 31, 2006, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal government audit organization, and was complied with during the period ended March 31, 2006, to provide DOC OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

We observed positive audit practices and controls in DOC OIG's audit organization to help ensure that audits were performed in accordance with professional standards. Most importantly, the audit staff showed a high level of professionalism and expertise. During discussions with us, the audit staff displayed a thorough knowledge concerning the audits we reviewed and the audit organization's policies and procedures. Additionally, the December 2005 quality control review report we reviewed was insightful and contained in-depth coverage of the Office of Audit. As a result of that review, DOC OIG took positive steps to implement the recommendations,

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including finalizing its audit manual and conducting training on performing audits in accordance with *Government Auditing Standards*.

We noted, however, conditions that warrant your attention though they did not impact our overall opinion. These matters are described in the findings and recommendations that follow. Our scope and methodology appear as Exhibit A and General Comments appear as Exhibit B.

Findings and Recommendations

Finding - Elements of DOC OIG's Quality Control System Could Improve

Elements of DOC OIG's internal control system include supervisory reviews; independent referencing; monitoring through the use of internal quality reviews; and up-to-date policies, procedures and guidance. Because an OIG evaluates how well agency programs and operations are functioning, it has a special responsibility to ensure that its own operations are as effective and consistent as possible. Opportunities for improving internal controls were identified, as noted below.

Supervisory Review

Government Auditing Standards require that staff be properly supervised, including reviewing the work that they perform. DOC OIG's Manual 5230, *Documenting Audit and Attestation Engagement Work*, states that "supervisory reviews should be adequate to ensure that all steps necessary to accomplish the audit have been completed; findings and conclusions are sound and fully supported by work paper evidence that is sufficient, competent and relevant and that work fully complies with *Government Auditing Standards*." DOC OIG also issued an April 2006 memorandum to its supervisors to reinforce that audits should be performed in accordance with GAGAS. In some instances, monitoring work for quality and adherence to GAGAS could improve as evidenced by the findings noted in the report.

<p>Supervisory Review</p> <ul style="list-style-type: none">✓ Provide sufficient guidance to staff.✓ Stay informed about significant problems encountered.✓ Review the work performed.✓ Provide effective on-the-job training <p style="text-align: right;">GAGAS 2003 Revision, 7.44</p>
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Independent Referencing

According to DOC OIG Manual 5610, "Independent referencing is an integral part of the audit quality control process that helps to ensure that reports are accurate and adequately supported by the work papers." Independent referencing ensures that sufficient, competent and relevant evidence exists in the working papers to afford a reasonable basis for reported findings and recommendations. We recognize that DOC OIG has recently provided staff with training on independent referencing. However, steps are needed to ensure independent referencing

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processes are effective. With improved independent referencing, issues we noted in this peer review could have been identified and corrected before work product issuance.

Internal Quality Reviews

DOC OIG must reaffirm its commitment to, and provide leadership for an annual internal quality review program. A significant element of the quality control system is the internal quality review. A quality control system ensures consistent quality throughout DOC OIG. A well functioning quality control system allows DOC OIG to:

"Commitment to Quality is an important principle governing our work"

An Audit Quality Control System: Essential Elements, August 1993, GAO/OP-4.1.6.

- Meet *Government Auditing Standards*
- Lead by example
- Provide additional assurance of quality to DOC OIG Management
- Provide assurance of quality to the Congress and the American people
- Continually enhance quality controls and product quality
- Learn from others and share knowledge and experience with others

The lack of timely periodic internal quality reviews by DOC OIG was noted during the last peer review by FDIC in 2003, and was again reported in its internal quality assessment review in December 2005. Based on the recommendations in the internal quality review, on March 31, 2006, DOC OIG finalized Manual 5610, *Assuring Quality Control of Audits and Attestation Engagements*, which requires "periodic internal quality control reviews throughout the three-year peer review cycle, with at least one review conducted each year..." However, since the finalization of the manual, we noted that DOC OIG has not performed any internal quality reviews to ensure that audit activities are meeting *Government Auditing Standards*.

Tracking Corrective Actions

In order to address recommendations found in internal quality reviews and peer reviews, DOC OIG implements action plans to correct issues found. However, after issuance of the action plans for both the prior peer review and internal quality review, DOC OIG did not track the action items or assess their effectiveness in order to determine whether the actions adequately addressed and corrected issue areas. As a result, some conditions found during previous reviews continue to exist.

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Policies, Procedures and Guidance

Up-to-date policies and procedures have been an issue for DOC OIG during past peer reviews and internal quality reviews. On March 31, 2006, DOC OIG finalized an updated audit manual which sets forth the necessary policies and procedures to ensure that work fully complies with the

Government Auditing Standards. While this is a significant accomplishment, we are concerned that the audit manual may again become outdated, because it does not include dates for review, reissuance, revision or cancellation. Because of the history of out-of-date policies and procedures, we believe DOC OIG should include review dates in its audit manual or at least schedule the policies for periodic review.

Quality Control System

An audit organization's system of quality control encompasses the audit organization's structure and the policies adopted and procedures established to provide the organization with reasonable assurance of complying with applicable standards governing audits and attestation engagements.

GAS 2003 revision 3.50

Recommendations

We recommend that the Assistant Inspector General for Audit:

- ✓ Reassess the effectiveness of the guidance and training on supervision and independent referencing through the use of internal quality reviews.
- ✓ Implement the internal quality control review process as required by DOC OIG Audit Manual 5610, *Assuring Quality Control of Audits and Attestation Engagements*.
- ✓ Track the status of actions taken to address recommendations from internal quality reviews and peer reviews.
- ✓ Establish review dates for its Audit Manual to ensure that it is up-to-date and reflects current legislation, regulations, standards and operating procedures.

Management's Response

Agree. Prior to the external peer review, we began the process of strengthening our internal controls by filling the position responsible for the internal quality control review process (Deputy Director for the Audit Services Division) in August 2006. In October 2006, the Deputy Director held a training session to advise audit managers on techniques to better document supervisory review during audit planning, audit field work, and audit reporting.

In addition, we have developed an Internal Quality Assurance program that includes the following elements (additional details are in Appendix A):

- a. Conduct annual Internal Quality Reviews (IQR) of at least one report from each office and division.
- b. Monitor current audit files to assess whether there is sufficient documentation for audit planning and audit field work procedures, including evidence of supervisory review, to ensure compliance with *Generally Accepted Government Auditing Standards (GAGAS)*.

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- c. Track the status of actions taken to address recommendations from prior internal quality and external peer reviews.
- d. Review and update OIG audit manual on a systematic basis. We plan on reviewing the entire OIG audit manual over a three year period.
- e. Review auditors' training requirements on a quarterly basis.
- f. Conduct periodic —minimum once a year—refresher training on directives and use of consistent audit programs for similar audits.

Finding—Improvements Needed to Assure Evidence Provides Support

Most reports' analyses and conclusions were adequate but further improvements can assure that available evidence provides support for the analyses and conclusions. While the lack of documentation did not impact the overall report conclusions, the quality of the work could be questioned. We found

- Some report statements were not adequately referenced.
- Some referenced evidence was weak.
- One report conclusion was inconsistent and not adequately supported by information in the report.

Congress has recently increased the emphasis on the quality of information in the Federal government. DOC OIG, along with other OIGs, has a long-standing commitment to the quality of information it disseminates. DOC OIG procedures for quality control over information in its reports are based on GAGAS for evidence.

<p>Data Quality Act Section 515 of Public Law 106-554</p> <p>Congress directed OMB to issue government-wide guidelines that "provide policy and procedural guidance to Federal agencies for ensuring and maximizing the quality, objectivity, utility, and integrity of information (including statistical information) disseminated by Federal agencies...."</p>
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We believe a significant reason that sufficient information was not always available to provide support for the analyses and conclusions is that the DOC OIG quality control system (supervision; independent referencing; internal quality reviews; and policies procedures and guidance) could improve.

DOC OIG formalized its audit manual and conducted staff training to reinforce that significant facts, conclusions and judgments must be supported by the working papers. We believe DOC OIG should assess the effectiveness of these actions to make sure that available evidence provides support for the analyses and conclusions

Recommendation

We recommend that the Assistant Inspector General for Audit reassess the effectiveness of the guidance and training on proper work paper preparation, referencing, and adequacy of evidence to ensure that evidence available provides support for the analyses and conclusions.

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Management's Response

Agree. Our newly developed Internal Quality Assurance program includes the following elements that will help to ensure these improvements:

- Referencers will use a supplemental checklist (details in Appendix A) to help assess whether available evidence provides support for the analyses and conclusions.
- The Deputy Director for the Audit Services Division has instituted ongoing monitoring of current projects (almost all audit files are stored electronically and can be shared through electronic methods). Her monitoring efforts will focus on sufficiency of documentation for audit planning and audit field work procedures (adequacy of evidence supporting analyses and conclusions) and proper work paper preparation.

Finding - Work to Assess Internal Controls, Risk of Illegal Acts, and the Validity and Reliability of *Computer-processed* Data Could Improve

Overall, most teams documented their reviews of internal controls, risk of illegal acts, and the reliability of computer processed data in the working papers and reports. GAGAS requires auditors to understand internal controls; assess the risk that illegal acts could occur; and determine the validity and reliability of computer-processed data. However, we found instances of the following

<p>Assessing Risk of Illegal Acts</p> <p>Auditors should determine which laws, regulations, and provisions of contracts or grant agreements are significant to the audit objectives and assess the risk that illegal acts or violations of provisions of contracts or grant agreements could occur.</p> <p style="text-align: right;">GAS 2003 revision 7.17</p>

- Internal control reviews were not completed or clearly documented.
- Risk of illegal acts assessment was not completed.
- Validity and reliability of computer-processed data was not addressed.

DOC OIG manual 5910 requires completion of the *GAGAS* Determinations and Related Standards *Certification (Certification)*, an assertion of the applicability of standards. However, this *Certification* only addresses the applicability of three standards: compliance with legal and regulatory requirements; adequacy of internal controls; and AICPA Statements on Standards for Attestation Agreements. We believe the *Certification* should be modified to require auditors to also document applicability of the risk of illegal acts and assessment of the validity and reliability of computer-processed data. Without adequate, clearly documented internal control reviews, risk of illegal acts, and the reliability of computer processed data there is a risk of inadequate review and a flawed report.

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Recommendation

We recommend that the Assistant Inspector General for Audit modify the *GAGAS Determinations and Related Standards Certification* form to include decisions on the applicability of the risk of illegal acts and assessment of the validity and reliability of computer-processed data.

Management's Response

Partially agree. You state that most teams documented their reviews and we believe that our work papers do meet the requirements of the auditing standards. However, to ensure that we consistently have full and complete documentation for our results, we established a policy in October 2006 that audit programs for all performance and financial assistance audits include 42 audit procedures to document compliance with *Government Auditing Standards*. These procedures include requirements to:

- ^a 3 Consider and document internal controls
- 3 Determine whether to test internal controls
- 3 Assess compliance with laws and regulations
- 3 Consider indications of fraud and abuse
- Decide if a data reliability assessment is necessary
- 3 Perform a data reliability assessment, if necessary

We believe that this policy and our new Internal Quality Assurance program will assist the audit teams to clearly and more effectively document their audit results in these areas.

Finding- Evidence of Approval and Completeness of Audit Plans Could Improve

As discussed previously, more work is needed on complying with GAGAS for evidence, internal controls, risk of illegal acts, and the reliability of computer-processed data. Additional effort should also be expended on preparing audit plans. Most planning was adequate with a few instances where evidence of approval and completeness of the audit program could be improved. GAGAS requires "audit work be adequately planned..." Also, the DOC OIG audit manual requires an approved written audit plan. GAGAS elements for planning, e.g., internal control reviews, illegal acts assessments and general format of audit report, were sometimes not included. Also, in a few cases, evidence of audit program approval was confusing or late.

Recommendation

We recommend that the Assistant Inspector General for Audit reassess the effectiveness of training including a supervisory review requirement on audit planning through the use of internal quality reviews.

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Management's Response

Agree. In October 2006, we established a policy that audit programs for all performance and financial assistance audits include 42 audit procedures to document compliance with *Government Auditing Standards*. These procedures include requirements to document approval of the audit program, as well as the procedures listed in section 3 above. We believe that this policy and our new Internal Quality Assurance program will help to improve evidence of approval and completeness of audit plans.

Finding - Improvements Needed in Reporting

GAGAS requires that, "the audit report should include the objectives, scope, and methodology; the audit results, including findings, conclusions and recommendations." We found improvements were needed in reporting, including:

<p>Report Quality Elements</p> <p>"The report should be timely, complete, accurate, objective, convincing, clear and as concise as the subject permits"</p> <p>GAS 2003 revision 8.38</p>
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- Clearly explaining how the audit objectives were accomplished.
- Providing conclusions on objectives that called for conclusions.
- Describing how and why a sample was selected and its relationship to the universe.
- Clearly describing the internal controls reviewed.
- Developing cause.
- Developing specific and action-oriented recommendations.

Further, some reports could be more clearly written. The DOC OIG Manual is very specific about what information is to be included in the audit report, and the OIG *Style Guide* provides direction on written materials. However, neither guidance document provides templates that could help staff ensure that all applicable elements are included in a report. By not clearly and plainly reporting information on the audits, the results are susceptible to misunderstanding.

Recommendation

We recommend that the Assistant Inspector General for Audit provide templates that can help staff ensure that all applicable elements are included in a report.

Management's Response

Partially agree. We believe that our audit reports contain all GAGAS required elements. However, we will instruct our referencers to use a newly developed supplemental referencing checklist (details in Appendix A) to make it transparent that all audit reports contain required GAGAS reporting elements. We believe that the supplemental referencing checklist and our new Internal Quality Assurance program will be more effective than report templates.

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Exhibit A

Scope and Methodology

We tested compliance with the Office of Inspector General's system of quality control to the extent we considered appropriate. These tests included a review of 8 of 32 audit reports issued during October 1, 2005 through March 31, 2006 semiannual reporting periods. In addition, we reviewed the financial statement audit and DOC OIG monitoring activities covering FY 2005 for the Department of Commerce that were performed under contract by KPMG.

We conducted our review from June 2006 through January 2007 in accordance with the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency, Guide for Conducting External Quality Control Reviews of Audit Operations of the Inspector General (2005 revision).

DOC OIG Offices Reviewed

We visited the Atlanta, GA and Washington, DC offices of the DOC OIG. We also visited the office of the Department of Treasury, Bureau of Public Debt in Parkersburg, WV to review official personnel files.

Audit Reports Reviewed

REPORT NUMBER	DATE	REPORT TITLE
ATL 17545-6-0001	3-28-06	THE COMMONWEALTH OF PENNSYLVANNIA
BSD 17612-6-0001	1-9-06	OPPORTUNITIES TO FURTHER ENHANCE CONTROLS OVER USER FEES (FOLLOW UP RECMD TO NOAA USER FEES)
BSD 16186-5-0001	7-8-05	OPPORTUNITIES TO STRENGTHEN INTERNAL CONTROLS OVER IMPROPER PAYMENTS (MGMT CONTROLS OVER IMPROPER PYMT)
DEN 17410-6-0001	12-20-05	FASTVDO LLC, MD
FSD 17444-6-0001	3-31-06	DEPARTMENT OF COMMERCE HAS MADE SIGNIFICANT PROGRESS, BUT ADDITIONAL OPPORTUNITIES EXIST TO IMPROVE THE REPORTING AND UTILITY OF PERFORMANCE RESULTS (DOC PERFORMANCE RESULTS)
FSD 17434-6-0001	11-7-05	USPTO FY 2005 FINANCIAL STATEMENT AND IT CONTROLS AUDIT (0001)
FSD 17434-6-0002	1-12-06	ASSESSMENT OF INFORMATION TECHNOLOGY CONTROLS SUPPORTING USPTO'S FINANCIAL MANAGEMENT SYSTEMS FY 2005 FINANCIAL STATEMENT AUDIT (0002)
FSD 17252-5-0001	9-30-05	VALUE OF MBDA PERFORMANCE MEASURES IS UNDERMINED BY INAPPROPRIATE COMBINING OF PROGRAM RESULTS AND UNRELIABLE PERFORMANCE DATA FROM MBOC PROGRAM (MBDA PERFORMANCE ACCOMPLISHMENT)
STL 17242-5-0001	7-8-05	THE NMFS REVIEW PROCESS FOR THE CALIFORNIA CENTRAL VALLEY AND STATE WATER PROJECTS' BIOLOGICAL OPINION DEVIATED FROM THE REGION'S NOMAL PRACTICE (MILLER LETTER)

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Prior Reviews

The team followed up on previously issued reports:

- ✓ External Quality Control Review by the Federal Deposit Insurance Corporation, Office of Inspector General, dated December 2, 2003.
- ✓ Quality Control Review performed by REDE, Inc., dated December 2005.

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Exhibit B

General Comments

Requirements of *Paperwork* Reduction Act Not Consistently Applied

DOC OIG did not consistently apply the requirements of the Paperwork Reduction Act (PRA) in collecting information from non-Federal respondents on one assignment. For example, one team requested DOC OIG Counsel's guidance on the applicability of PRA, whereas another team concluded that PRA applied without obtaining any guidance. The PRA requires agencies and Office of Management and Budget (OMB) to ensure that information collected from the public minimizes burden and maximizes practical utility. One of the key limitations on such data gathering is the requirement that "collections of information" be reviewed and approved by OMB, after public notice and comment. The package of materials that is submitted to OMB is called an *Information Collection Request* (ICR). ICRs are generally required when collecting substantially **similar information** from **ten or more** respondents. In general, any monitoring, reporting or record keeping requirement imposed on non-Federal respondents requires OMB approval. Only upon approval by OMB, as evidenced by assignment of a control number to the information collection, may an agency proceed with information collection. For one assignment, an ICR was not prepared and submitted to OMB based on advice from DOC OIG Counsel. As a result, information was collected for evaluations from more than nine non-Federal respondents without OMB approval.

Recommendation

We recommend that the Assistant Inspector General for Audit in consultation with DOC OIG Counsel issue guidance about the Paperwork Reduction Act.

Management's Response

Partially Agree. We accept your finding that two teams working on an assignment approached the Paperwork Reduction Act determinations in an inconsistent manner, but do not agree with your characterization of the results. In accordance with your recommendation, we will work with our Office of Counsel to develop guidance for our audit manual on the Paperwork Reduction Act.

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Exhibit C
Managements Comments



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

APR 12 2007

Bill A Roderick
Acting Inspector General
United States Environmental Protection Agency
Washington, D.C. 20460

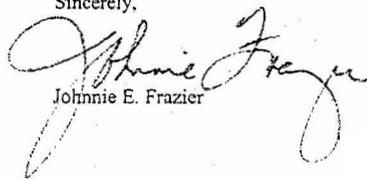
Dear Mr. Roderick.

Thank you for the opportunity to comment on your draft Report on the External Quality Control Review of the Department of Commerce's Audit Organization. We are very pleased that you found our system of quality control for the audit function to be in compliance with the quality control standards established by the Comptroller General of the United States for Federal government organizations. We also appreciate your comments on how we can further improve our system of quality controls.

Enclosed you will find our response to your findings and recommendations. We generally agreed with your findings and recommendations and have initiated actions to improve our policies, procedures and processes for conducting audits.

We appreciate the professionalism of your staff during the audit. If you have any questions, please contact me at (202) 482-4661 or have your staff contact John M. Seeba, Assistant Inspector General for Auditing, at (202) 482-5910.

Sincerely,


Johnnie E. Frazier

Enclosure



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Draft Response to External Peer Review Report

1. Finding – **Elements** of DOC **OIG's Quality** Control System **Could** Improve

Recommendations - We recommend that the Assistant Inspector General for Audit:

- a. Reassess the effectiveness of the **guidance** and training on supervision and independent referencing through the use of internal quality reviews.
- b. Implement the internal quality control review process as required by DOC **OIG** Audit Manual 5610, *Assuring Quality Control of Audits and Attestation Engagements*.
- c. Track the status of actions taken to address recommendations from **internal** quality reviews and peer reviews.
- d. Establish review dates for its Audit Manual to ensure that it is up-to-date and reflects current legislation, regulations, standards and operating procedures.

Management Response - Agree. Prior to the external peer review, **we** began the process of strengthening our internal controls by filling the **position** responsible for the **internal** quality control review process (Deputy Director for the Audit Services Division) in August 2006. In October 2006, the Deputy Director held a training session to advise audit managers on techniques to better document supervisory review during audit planning, audit field work, and audit reporting.

In addition, we have developed an Internal Quality Assurance program that includes the following elements (additional details are in Appendix A):

- a. Conduct annual Internal Quality Reviews (IQR) of at least one report from each office and division.
- b. Monitor current audit files to assess whether there is sufficient documentation for audit planning and audit field work procedures, including evidence of supervisory review, to ensure compliance with *Generally Accepted Government Auditing Standards (GAGAS)*.
- c. Track the status of actions taken to address recommendations **from** prior **internal** quality and external peer reviews.
- d. Review and update **OIG** audit manual on a systematic basis. We plan on reviewing the entire **OIG** audit manual over a three year period.
- e. Review auditors' training requirements on a quarterly basis.
- f. Conduct periodic — minimum once a year — refresher training on directives and use of consistent audit programs for similar audits.

3. Finding – Improvements Needed to **Assure** Evidence Provides Support

Recommendation - We recommend that the Assistant Inspector General for Audit reassess the effectiveness of the guidance and training on proper work paper preparation, referencing, and adequacy of evidence to ensure that evidence available provides support for the analyses and conclusions.

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Management Response

Agree. Our newly developed Internal Quality Assurance program includes the following elements that will help to ensure these improvements:

- Referencers will use a supplemental checklist (details in Appendix A) to help assess whether available evidence provides support for the analyses and conclusions.
- The Deputy Director for the Audit Services Division has instituted ongoing monitoring of current projects (almost all audit files are stored electronically and can be shared through electronic methods). Her monitoring efforts will focus on sufficiency of documentation for audit planning and audit field work procedures (adequacy of evidence supporting analyses and conclusions) and proper work paper preparation.

3. Finding – Work to Assess Internal Controls, Risk of Illegal Acts, and the Validity and Reliability of Computer-Processed Data Could Improve

Recommendation

We recommend that the Assistant Inspector General for Audit modify the *GAGAS Determinations and Related Standards Certification* form to include decisions on the applicability of the risk of illegal acts and assessment of the validity and reliability of computer-processed data.

Management Response

Partially agree. You state that most teams documented their reviews and we believe that our work papers do meet the requirements of the auditing standards. However, to ensure that we consistently have full and complete documentation for our results, we established a policy in October 2006 that audit programs for all performance and financial assistance audits include 42 audit procedures to document compliance with *Government Auditing Standards*. These procedures include requirements to:

- Consider and document internal controls
- Determine whether to test internal controls
- Assess compliance with laws and regulations
- Consider indications of fraud and abuse
- Decide if a data reliability assessment is necessary
- Perform a data reliability assessment, if necessary

We believe that this policy and our new Internal Quality Assurance program will assist the audit teams to clearly and more effectively document their audit results in these areas.

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4. Finding - Evidence of **Approval** and Completeness of **Audit** Plans Could Improve

Recommendation

We recommend that the Assistant Inspector General for Audit reassess the effectiveness of training including a supervisory review requirement on audit planning through the use of internal quality reviews.

Management Response

Agree. In October 2006, we established a policy that audit programs for all performance and financial assistance audits include 42 audit procedures to document compliance with Government *Auditing Standards*. These procedures include requirements to document approval of the audit program, as well as the procedures listed in section 3 above. We believe that this policy and our new Internal Quality Assurance program will help to improve evidence of approval and completeness of audit plans.

5. Finding - Improvements Needed in Reporting

Recommendation - We recommend that the Assistant Inspector General for Audit provide templates that can help staff ensure that all applicable elements are included in a report.

Management Response

Partially agree. We believe that our audit reports contain all GAGAS required elements. However, we will instruct our referencers to use a newly developed supplemental referencing checklist (details in Appendix A) to make it transparent that all audit reports contain required GAGAS reporting elements. We believe that the supplemental referencing checklist and our new Internal Quality Assurance program will be more effective than report templates.

6. Comment - Requirements of Paperwork Reduction Act Not Consistently Applied

Recommendation - We recommend that the Assistant Inspector General for Audit in consultation with DOC OIG Counsel issue guidance about the Paperwork Reduction Act

Management Response

Partially Agree. We accept your finding that two teams working on an assignment approached the Paperwork Reduction Act determinations in an inconsistent manner, but do not agree with your characterization of the results. In accordance with your recommendation, we will work with our Office of Counsel to develop guidance for our audit manual on the Paperwork Reduction Act

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Appendix A

Details of Internal Quality Assurance Program

1. Beginning in March 2007, the Audit Services Division is responsible for assigning report referencers. To the extent practicable, referencers will be experienced auditors not assigned to the regional or divisional office that conducted the audit.
2. In addition to verifying factual statements and determining whether work paper support is adequate, referencers will use a supplemental referencing checklist to assess the sufficiency of documentation for audit reporting procedures:
 - a. Audit objectives
 - b. Audit scope and methodology, including:
 - i. Work conducted to accomplish the audit's objectives
 - ii. How and why a sample was selected
 - iii. Sample's relationship to the universe
 - c. Scope of audit work on internal controls
 - d. Significant internal controls assessed
 - e. Deficiencies in internal control that are significant within the context of the audit objectives
 - f. Extent to which information systems controls are significant to the auditors' overall assessment of appropriateness of information
 - g. Assessment of the reliability of computer-processed data
 - h. Sufficient development of cause(s) of finding(s)
 - i. Whether recommendations address cause(s)
 - j. Conclusions on audit objectives
3. We will conduct annual IQRs of at least one report from each office or division. We expect to conduct most of these IQRs through remote reviews of the electronic workpapers.
4. We will monitor current audit files to assess whether there is sufficient documentation for audit planning and audit field work procedures that comply with GAGAS. As almost all audit files are electronic, audit files can be monitored from headquarters. Sufficient documentation for audit planning and audit field work procedures have been the subjects of past peer review recommendations. Procedures to be monitored include:
 - a. Auditors' consideration of audit risk
 - b. Decisions regarding objectives, scope, and methodology
 - c. Determination of which laws, regulations and provisions of contracts or grant agreements are significant within the context of the audit objectives
 - d. Assessment of risk that illegal acts or violations of provisions of contracts or grant agreements could occur
 - e. Assessment of risks of potential significant fraud within the scope of the audit criteria

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- f. Considering the work of others
 - g. Assessing and determining whether to test internal controls
 - h. Assessing compliance with laws and regulations
 - i. Considering indications of fraud and abuse
 - j. Considering the results of previous audits
 - k. Determining if a data reliability assessment is necessary
 - l. Performing a data reliability assessment if necessary
 - m. Supervisory review during audit planning, audit field work, and audit reporting
5. We will track the status of actions taken to address recommendations from internal quality and external peer reviews. Actions to be tracked include:
- a. Results of ongoing electronic monitoring of procedures for audit planning and audit field work
 - b. Results of referencer reviews of audit reporting procedures
6. We will review and update the OIG audit manual over a three year period. The objective of the periodic reviews will be to ensure that the OIG audit manual reflects current *Government Auditing Standards* and Department regulations, standards and operating procedures.
7. We will review auditors' training requirements on a quarterly basis.
8. We will conduct periodic—minimum once a year—refresher training on directives and use of consistent audit programs for similar audits.
9. We will compare, on a monthly basis, electronic audit files with the status of projects in the audit resolution tracking system to monitor finalization of electronic files for audits that have completed the resolution process.